

**REPORT OF THE AUDIT OF THE
FORMER OWSLEY COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

September 12, 2001



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Honorable Paul Short, Former Owsley County Sheriff
Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the former Owsley County Sheriff's Settlement - 2000 Taxes as of September 12, 2001.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the former Owsley County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FORMER OWSLEY COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

September 12, 2001

**ROSS & COMPANY, PLLC
Certified Public Accountants**

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FORMER OWSLEY COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES

September 12, 2001

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2000 Taxes for former Owsley County Sheriff Paul Short as of September 12, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$613,986 for the districts for 2000 taxes, retaining commissions of \$25,964 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$594,471 to the districts for 2000 Taxes. Taxes of \$4,131 due to the districts from the former Sheriff and refunds of \$35 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Should Settle Amount Owed And Collect Amounts Due Former Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Pay Advertising Fees To The Fee Account
- The Former Sheriff Should Maintain Sufficient Collateral To Protect Public Deposits
- The Former Sheriff Should Not Have A Deficit In His Official Bank Account
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the Owsley County Sheriff's Settlement - 2000 Taxes as of September 12, 2001. This tax settlement was the responsibility of the former Owsley County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Owsley County Sheriff's taxes charged, credited, and paid as of September 12, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2004, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Honorable Paul Short, Former Owsley County Sheriff
Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Settle Amount Owed And Collect Amounts Due Former Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Pay Advertising Fees To The Fee Account
- The Former Sheriff Should Maintain Sufficient Collateral To Protect Public Deposits
- The Former Sheriff Should Not Have A Deficit In His Official Bank Account
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
January 13, 2004

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

September 12, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 89,742	\$ 133,828	\$ 235,380	\$ 72,306
Tangible Personal Property	3,421	3,936	9,109	4,614
Intangible Personal Property				1,181
Fire Protection	2,002			
Increases Through Exonerations	44	60	117	36
Franchise Corporation	24,977	30,713	66,368	
Oil and Gas Property Taxes	367	498	962	296
Penalties	1,098	1,707	2,844	846
Adjusted to Sheriff's Receipt	3	3	10	182
Gross Chargeable to Sheriff	<u>\$ 121,654</u>	<u>\$ 170,745</u>	<u>\$ 314,790</u>	<u>\$ 79,461</u>
<u>Credits</u>				
Exonerations	\$ 2,706	\$ 3,776	\$ 7,066	\$ 2,171
Discounts	1,573	2,169	4,069	938
Delinquents:				
Real Estate	7,420	10,024	19,032	5,847
Tangible Personal Property	54	153	143	136
Intangible Personal Property				419
Uncollected Franchise	<u>1,008</u>	<u>1,298</u>	<u>2,662</u>	
Total Credits	<u>\$ 12,761</u>	<u>\$ 17,420</u>	<u>\$ 32,972</u>	<u>\$ 9,511</u>
Taxes Collected	\$ 108,893	\$ 153,325	\$ 281,818	\$ 69,950
Less: Commissions *	<u>4,915</u>	<u>6,516</u>	<u>11,273</u>	<u>3,260</u>
Taxes Due	\$ 103,978	\$ 146,809	\$ 270,545	\$ 66,690
Taxes Paid	103,183	145,206	279,966	66,116
Commissions Refunded From School			14,519	
Refunds (Current and Prior Year)	<u>44</u>	<u>58</u>	<u>115</u>	<u>35</u>
Taxes Due as of Settlement Date	\$ 751	\$ 1,545	\$ 4,983	\$ 539
Taxes Paid after Settlement Date	<u>\$ 558</u>	<u>\$ 1,332</u>	<u>\$ 1,258</u>	<u>\$ 574</u>
Taxes Due District (Refund Due Sheriff)		**		
as of Field Work Date	<u>\$ 193</u>	<u>\$ 213</u>	<u>\$ 3,725</u>	<u>\$ (35)</u>

* and ** See Page 4

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES
September 12, 2001
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	322,168
4% on	\$	281,818

** Special Taxing Districts:

Library District	\$	90
Health District		45
Extension District		27
Soil Conservation District		44
City		<u>7</u>
Due Districts	\$	<u><u>213</u></u>

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

September 12, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 18, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$27,855 of public funds uninsured and unsecured.

OWSLEY COUNTY
 NOTES TO FINANCIAL STATEMENT
 September 12, 2001
 (Continued)

Note 2. Deposits (Continued)

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	89,185
Uncollateralized and uninsured	<u>27,855</u>
Total	<u>\$ 217,040</u>

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of December 18, 2000.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2000 through May 31, 2001.

Note 4. Interest Income

The former Owsley County Sheriff earned \$286 as interest income on 2000 taxes. As of January 9, 2004, the School owes the former Sheriff's Fee Account \$356 in interest and the former Sheriff owes \$160 interest to the fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Owsley County Sheriff collected \$4,911 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of January 9, 2004, the former Sheriff owes \$1,663 in 10% add-on fees to his fee account.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
September 12, 2001
(Continued)

Note 6. Advertising Costs

The former Owsley County Sheriff collected \$460 of advertising costs allowed by KRS 424.330(1). The former Sheriff distributed the advertising costs to the county as required by statute. The former Sheriff did not pay advertising fees to the fee account as required by KRS 134.440(2).

Note 7. Deficit Balance

Based on available records, there is a \$335 deficit in the former Sheriff's official tax account.

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

September 12, 2001

Assets

Cash in Bank (All Tax Accounts)	\$ 21,014
Deposits in Transit	16,716
Receivables:	
State	35
School - Overpayment of Interest	356
Fee Account - Overpayment of Commissions	2,984
	<hr/>
Total Assets	\$ 41,105

Liabilities

Paid Obligations-

Outstanding Checks	\$ 17,091
Taxing Districts:	
State	632
County	2,839
School	7,544
Library	1,347
Extension	1,158
Health	837
Soil Conservation	555
City	395
Commission Paid to Fee Account	3,046
Interest Paid to School	42
	<hr/>

Total Paid Obligations	\$ 35,486
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Unpaid Obligations-

 Due to Taxing Districts:

County	\$ 193
School	3,725
Library	90
Health	45
Extension Service	27
Soil Conservation	44
City	7
10% Add-On Fees Due Fee Account	1,663
Interest Due Sheriff's Fee Account	160
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Total Unpaid Obligations	\$ 5,954
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Total Liabilities	\$ 41,440
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Total Fund Deficit as of September 12, 2001	<u>\$ (335)</u>
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COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of September 12, 2001

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Settle Amount Owed And Collect Amounts Due Former Sheriff

The proper distribution of tax money collected by the former Sheriff requires the collection of receivables (including overpayments to some taxing districts) and the payment of these funds to the appropriate taxing districts. The following net collections and net payables should be made:

Money Due From Others:

State	\$ 35
Fee Account	<u>1,161</u>

Total Due From Others	<u><u>\$ 1,196</u></u>
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Money Due To Others:

County	\$ 193
School	3,369
Library	90
Health	45
Extension	27
Soil	44
City	<u>7</u>

Total Due Others	<u><u>\$ 3,775</u></u>
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When the personal funds of \$335 are deposited in the official tax account, the above collections and distributions, along with the available tax bank account cash of \$2,244, will be sufficient to close the former Sheriff's tax account for tax year 2000. We recommend the former Sheriff collect the above \$1,196 of receivables and, combined with the personal funds of \$335 and the available cash of \$2,244, pay the listed \$3,775, of money owed.

Former Sheriff Paul Short's Response: None.

The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2000 tax collections, the former Sheriff earned interest of \$286 on his tax account. However, the former Sheriff did not pay the interest to the Board of Education or the fee account on a monthly basis, the former Sheriff only made two payments to the Board of Education and no payments were made to

OWSLEY COUNTY
PAUL SHORT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of September 12, 2001
(Continued)

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly (Continued)

the fee account. As of January 13, 2004, the Board of Education owed the former Sheriff \$356, and the former Sheriff owed the fee account \$160. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and the fee account on a monthly basis.

Former Sheriff Paul Short's Response: None.

The Former Sheriff Should Pay Advertising Fees To The Fee Account

The former Sheriff did not pay any advertising fees to the fee account and we were unable to determine the exact amount due. We recommend that the former Sheriff determine the amount of Advertising Fees due the fee account and pay accordingly.

Former Sheriff Paul Short's Response: None.

The Former Sheriff Should Maintain Sufficient Collateral To Protect Public Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 18, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$27,855 of public funds uninsured and unsecured.

Former Sheriff Paul Short's Response: None.

The Former Sheriff Should Not Have A Deficit In His Official Bank Account

Based on available records, the former Sheriff had a deficit of \$335 in his official bank account as of September 12, 2001. This deficit results from undeposited receipts for tax year 2001. The former Sheriff should eliminate this deficit by depositing \$335 from personal funds to his official account. We recommend in the future that all tax collections be deposited intact daily to the official tax bank account.

Former Sheriff Paul Short's Response: None.

OWSLEY COUNTY
PAUL SHORT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of September 12, 2001
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Former Sheriff's Office Lacked Adequate Segregation of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. We recommend that the Sheriff implement compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2) having deposits compared to the receipts ledger and bank statements; and 3) comparing checks to monthly tax reports. The lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

Former Sheriff Paul Short's Response: None.

PRIOR YEAR:

The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits

This comment is not repeated in the current year.

The Sheriff Should Have Published The Sheriff's Annual Settlement

This comment is not repeated in the current year.

The Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records

This comment is not repeated in the current year.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Paul Short, Former Owsley County Sheriff
The Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Owsley County Sheriff's Settlement - 2000 Taxes as of September 12, 2001, and have issued our report thereon dated January 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Owsley County Sheriff's Settlement - 2000 Taxes as of September 12, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Settle Amount Owed And Collect Amounts Due Former Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Pay Advertising Fees To The Fee Account
- The Former Sheriff Should Maintain Sufficient Collateral To Protect Public Deposits
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

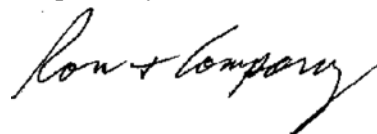
In planning and performing our audit, we considered the former Owsley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Ross & Company, PLLC

Audit fieldwork completed -
January 13, 2004

